UNIVERSAL MFG. CO.
720 O STREET, LOT D
LINCOLN, NE 68508

DONALD L. DUNN
PRESIDENT & CEO
www.universalmfgco.com

To Shareholders of Universal Mfg. Co.

CONSOLIDATED SIX MONTH OPERATING REPORTS
FOR SECOND QUARTER ENDED JANUARY 31, 2014
(Not audited by Independent Public Accountants)

BALANCE SHEET

		January 31, 2014		July 31, 2013
Assets				
Current Assets				
Cash & Equivalents	$	1,682,389	$	1,315,664
Accounts Receivable	$	3,919,335	$	2,326,150
Inventory	$	3,810,069	$	3,698,707
Costs in Excess	$	811,729	$	481,157
Other Current Assets	$	54,575	$	102,199
Total Current Assets	$	10,278,097	$	7,923,877
Other Assets				
Property, Plant & Equipment	$	1,477,000	$	1,880,089
Goodwill	$	4,898,600	$	4,898,600
Non-Compete Covenant	$	45,656	$	47,585
Total Other Assets	$	6,421,256	$	6,826,274
Total Assets	$	16,699,353	$	14,750,151
Liabilities & Stockholder's Equity				
Current Portion of LTD	$	144,561	$	304,749
Accounts Payable	$	1,345,432	$	583,897
Accrued Taxes & Compensation	$	1,288,670	$	649,004
Billings in Excess of Cost	$	462,739	$	91,863
Other Accruals	$	628,226	$	455,399
Total Current Liabilities	$	3,869,628	$	2,084,912
Long Term Liabilities				
Notes Payable	$	1,944,598	$	2,516,230
Stockholder's Equity				
Common Stock Outstanding	$	851,633	$	851,633
Additional Paid-in Capital	$	440,103	$	440,103
Retained Earnings	$	9,593,391	$	8,857,273
Total Stockholder's Equity	$	10,885,127	$	10,149,009
Total Liabilities & Stockholder's Equity	$	16,699,353	$	14,750,151

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CONSOLIDATED INCOME STATEMENT

	Quarter Ended January 31		Six Months Ended January 31	
	2014	2013	2014	2013
Sales	$ 7,888,505	$ 6,717,444	$ 13,907,840	$ 12,461,904
Earnings Before Income Taxes	$ 807,030	$ 253,475	$ 1,107,986	$ 543,834
Income Taxes (Est.)	$ 266,533	$ 88,717	$ 371,868	$ 190,342
Net Income	$ 540,497	$ 164,758	$ 736,118	$ 353,492
Basic Earnings per Share	$ 0.63	$ 0.19	$ 0.86	$ 0.42
Diluted Earnings per Share	$ 0.63	$ 0.19	$ 0.86	$ 0.41

The above are consolidated operating results of Universal Mfg. Co., including its ReTech operating division ("ReTech") and its operating subsidiary Man Lift Mfg. Co. ("Man Lift") (collectively, the "Company") for the 2nd Quarter ending January 31, 2014 (the "Quarter") and the first six months of the current fiscal year ("YTD") as compared to the same periods for the prior year ("PY"). The Quarter saw an increase in both Sales (17.4% increase over the same period PY) and net income (228.1% increase over PY same Quarter and 108.2% YTD over same period PY). Gross margins increased from 19.8% PY to 24.7% YTD. Operating Income (income before other income and expense, interest and taxes) was $746,000 for the Quarter and $1,058,000 YTD, compared to our budget of $578,000 for the Quarter and $1,036,000 YTD. These results were materially impacted by one large job at Man Lift with exceptionally good margins. While we anticipate continuing sales at our current rate, we do not anticipate margins to remain at the current elevated level.

The results for the Quarter were materially impacted by our decision to change our estimates for reserves for warranty expense and reserve for sales returns and allowances. Both of these issues arose out of information provided by our new auditors during our prior year audit. An adjustment was not made at year-end as it was determined that such an adjustment would not have been material; however, after further review and evaluation that was led by our newly hired CFO, we determined that increasing our reserve for warranty expense and establishing a reserve for sales returns and allowances was appropriate. Although we have always maintained a warranty reserve, after reviewing our method of calculating the reserve we determined that the amount was inadequate for anticipated expenses to be incurred related to sales for the current period. Essentially, historically we have taken warranty expense in the period incurred instead of related to the period when the sale was made. Similarly, we have recognized a reduction in sales for sales returns and allowances in the period incurred instead of the period when the sale was made. The result of these changes in estimates resulted in a onetime charge against current income of $218,000 to increase our reserve for warranty expense and $100,000 to establish a reserve for returns and allowances. In the aggregate, these non-cash charges reduced operating income for the Quarter and YTD by $318,000 and net after tax income for the Quarter and YTD by $210,000. On a per share basis, these charges resulted in a decrease in basic earnings of $.25 per share for the Quarter and YTD. All of these charges related to our ReTech operation.

ReTech sales grew by 2.3% for the Quarter over PY although 6.8% under Budget. Sales were 2.6% greater YTD over PYTD. Transfer Case and Transfer Case Motor sales increased 8.7% and 51.2% over same period PY and 5.1% and 52.4% respectively YTD over same period PY; Brake Calipers, Remanufactured Fuel Pumps and AFS were significantly under Budget, although AFS and Calipers YTD grew over same period PY, 4.8% and 32.7%, respectively. Differential sales YTD were at 52,000, compared to $19,000 same period PY. Gross Margin YTD for ReTech was 19.6%, compared to 22.8% same period PY reflecting the change in method of estimating reserves as noted above. At Operating Income, ReTech lost $158,000 for the Quarter, compared to a gain of $111,000 for the same period PY. YTD, ReTech lost $11,000 compared to a gain of $242,000 same period PY. Without the non-cash charges related to our change in estimating reserves, ReTech's operating profit would have been $306,000. Focus continues on broadening and deepening our sales in the drive train line.

Man Lift sales for the Quarter increased 28.2% over same period PY. Gross Margins were 34.7% compared to 15.7% same period PY. YTD sales were up 18.6% over PYTD and Gross Margins were at 28.1% compared to 17.4% PYTD. Operating Income was $1,136,000 for the Quarter, and $1,397,000 YTD an increase of 323.5% and 156.1% respectively over the same period PY. As noted above, the Quarter was materially impacted by a significant job where we were able to realize unusually high margins. The operation continues to perform remarkably well; however, we do not anticipate maintaining margins at the level realized in the past Quarter.

Corporate expenses have increased due to the reorganization of our financial and accounting department. Cost are now consolidated at the corporate level, with a small amount of the costs being allocated to the operating units. Cash flow for the Company was positive $549,000 for the Quarter and $367,000 YTD, after realizing a reduction in Term Debt of $705,000 in the 1st Quarter. Cash continues to remain strong; we ended the Quarter with no borrowings on our Operating Line of Credit, which we increased in August to $2.5 Million at the time of repayment of our bank term debt. Cash Flow from Operations increased by nearly $800,000 YTD.

Other material events occurring during the Quarter included the sale of a piece of commercial real estate in Peoria, IL, a building that related to a distribution business that was sold several years ago. The sale resulted in a gain of $80,000 and cash proceeds of $368,000. Additionally, as noted above, during the Quarter we made material changes in our finance and accounting positions. We created the position of CFO and hired Dawn M. Sutter to fill the position. Ms. Sutter has extensive experience in the corporate accounting departments of Mutual of Omaha (Financial Accounting Development Program), First Data Corporation (multiple positions including Director Finance), Transgenomic, Inc., a small publicly traded company (Corporate Controller) and InfoGroup, Inc., (Finance Director). She has assumed full responsibility for consolidation and integrity of overall financial records and reporting of UMC. The former position of Controller has been eliminated. Costs associated with the changes, including severance benefits, have been recognized at the Corporate level.

Forward Looking Statements;
Statements herein that are not historical facts, including statements about the Company's confidence and strategies and the Company's expectations about future market opportunities, market demand or acceptance of the Company's products are forward looking statements that involve risks and uncertainties. These uncertainties include, without limitation, the effect of general economic and market conditions, customer requirement for our products, the continuing strength of the industries in which we operate, competitor pricing, maintenance of our current momentum, weather conditions and other factors.